Determinants of Attitudes of Oil and Gas Companies to Host Communities: A Social Responsibility Perspective

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Abstract

The study was designed to explore the social responsibility attitudes of oil and gas companies to host communities. It presumed that these determinants fall broadly into endogenous and exogenous factors. Three oil and gas companies were sampled from the twelve listed in the Nigeria Stock Exchange for the study. The study found that for Oando Plc., Return on Assets, Earnings size and Debt-Equity ratio were determinants of attitudes of oil and gas companies but not so with MRS Plc. and Seplat Plc. Exogenous factors were found to be largely responsible for the social responsibility attitudes of oil and gas companies towards their communities.

Keywords: Oil and Gas Companies, Host Communities, Social Responsibility, Attitudes

1. Introduction

In the beginning, the concept of social responsibility had an Anglo-American feature based on “stakeholder economy” by British Prime Minister Tony Blair in 1996, (Burkitt, B. & Ashton F., 1996) and followed by first, the US view of market driven operation of business, and later became the general use of social and environmental aspects of business operations. Porter and Kramer (2006) were leading proponents of the view that different types of social issues linked to core business of the company: generic social issues, value chain social impacts, and social dimensions of competitive context (Belal, 2008). These thoughts were spread with dizzy quickness towards developing countries of the world generating an endless debate on the concept and meaning without any chance for final consensus on it. There are at least two explanations of this lack of consensus. According to Ghosal (2005) there is an argument that Corporate Social Responsibility (CSR) concept is only a social marketing idea, a general speech from corporations which take care of their public image but avoid making any important changes, or even worse, it is managed by business people who have no moral responsibility for the business and the community. The publication of Berthoil and Sobczak (2004) raises this issue that the term “corporate social responsibility” does not necessarily have the same meaning in culturally different places (countries, regions, continents) of the Globe. The Asian and European traditions are different from those of the Anglo-American (Buldybayeva, 2014).

Corporate Social Responsibility practice has a great developing potential in Nigeria. This issue is important not only for the government but for the multinational companies which run business in Kazakhstan. What is important to distinguish today is that the companies see CSR as an obligation before the government of the country they are bringing their business into. It is understandable that the giant multinationals enter the third world countries for reasons other than charity, however they must change their attitude towards CSR. The emergence of Corporate Social Responsibility concept in domestic and joint venture and multinational companies of the developing countries offer different implications of post-socialist compromises related to CSR. (Buldybayeva, 2014).

Major oil spills normally occur from oil installations and oil tankers that are under operational control of companies, that is, oil companies and tanker owners. There are two generic responses for changing the behavior of companies with regard to oil spill prevention: mandatory government regulation or voluntary initiatives often pursued under the banner of Corporate Social Responsibility (Frynas, 2012).

The oil and gas sector has been among the leading industries in championing CSR. One explanation is that oil and gas operations pose serious threats to the environment at each stage of the industrial process: construction, exploration, production, transportation, and refining (Clark 1982, Estrada et al. 1997), Multinational oil companies are more vulnerable to civil society pressures than companies in some other sectors of the economy because the negative effects of oil operations are highly visible and because the companies’ international brand reputations are vulnerable (Austin & Sauer 2002, Frynas 2009). Another important explanation is that oil companies are willing to accept higher levels of sociopolitical risks as they are forced to operate in more challenging environments for geological reasons, with oil and gas deposits often being located near ecologically vulnerable areas and in countries with poor governance such as Nigeria. (Frynas, 2012).

Corporate social responsibility is becoming an integral part of international business across many industries. Research (Europe, 2001; Cowe, 2001; Mazur, 2001) shows that there has been an increase in CSR activity across Europe, particularly as more and more businesses are becoming aware of CSR as a business strategy (Kilcullen & Kooistra, 1999). However, while many areas of research have examined the nature of cultural or business
preference to social equality, organizational culture and ethics (Adler, 1997; Singhapakdi et al., 2001; George and Jones, 2002; Lantos, 2002), there has previously been no research regarding the attitudes of oil and gas companies to host communities.

There is a great deal of potential to cause several and avoidable environmental harm by unchecked Oil and Gas exploration activities, in addition to severe health hazards that is usually associated with Oil and gas exploration activities resulting from pollution and the likes. Similarly, the culture, and economic and social structure of local and indigenous communities are also usually affected. To compound the problems, it is believed that environmental laws in emerging economies such as Nigeria and others are often ineffective because they are substantially inadequate and/or because they are inadequately enforced. According to KPMG (2007), this has led to calls by academics, practicing lawyers and human rights and environmental activists for transnational oil companies to voluntarily improve their performance in countries with inadequate environmental laws. This is now required to be done in their accounting reporting (KPMG, 2007). This will give rise to sustainability reporting. Accounting is called upon to assist in demonstrating the accountability and integrity of business actions (Uwaoma & Ordu, 2016).

Oil companies and industry groups have also recognized that international oil companies operating in emerging economies such as Nigeria, with inadequate environmental laws should adopt best practices. For example, members of the American Petroleum Institute are responsible for “obeying all laws and best practices” as part of the pledge to a program of continuous health, safety and environmental improvements, while the 1997 Environmental Policy of the Australian Petroleum Production and Exploration Association (APPEA) states that APPEA encourages and supports member companies to “comply, at a minimum, with applicable laws, regulations, standards and guidelines for the protection of the environment and in their absence adopt the best practicable means to prevent or minimize adverse environmental impacts” (Uwaoma and Ordu, 2016).

1.2 Statement of the Problem
The uncontrolled impact of industrial activities on the natural environment has created critical ecological concerns over the years. The aggravation of phenomena like climate change, ozone layer depletion, air pollution and toxic waste, exploitation of natural resources are harming the sustainability of the planet and of the economic system. Although governments in developing economies have partially allayed many environmental problems, the role of oil and gas companies is crucial for the achievement of the ecologically sustainable development (Shrivastava, 1995). A logical reason for this liability lies in the fact that companies are definitely the main source of environmental hazards. Conventional approaches of cost accounting have become inadequate since conventional accounting practices have ignored important environmental costs and activities impacting consequences on the environment. Annual financial information reports of oil corporations often do not make sufficiently clear their strategic priorities which results in a mass of over-aggregated data which is difficult for the reader to navigate his way through. There is no completeness and correctness of fair view to users of financial information, such as shareholders, environmentalists, environmental regulatory agencies and potential investors.

1.3 Objective of the Study
The general objective of this study is to find out what determines the attitudes of Oil and Gas Companies to host communities. It will look at the problem from the viewpoint of social responsibility.

The specific objectives are:
1. To determine whether social responsibility of Oil and Gas companies depends on endogenous factors.
2. To determine whether social responsibility of Oil and Gas companies depends on exogenous factors.

1.4 Research Hypotheses
The research hypotheses are designed to assess social responsibility practices of oil and gas companies in Nigeria. The analysis will be based on two null hypotheses:
1. Social responsibility practices of Oil and Gas companies do not depend on endogenous factors.
2. Social responsibility practices of Oil and Gas companies do not depend on exogenous factors.

1.5 Literature
Madu (1996) states that organisations that excel on environmental protection do not only gain societal acceptance but they also gain enormous profits. Therefore, technologies developed should maintain the protection of environment while helping to improve our quality of life.

Goodland (1995) found that Environmental sustainability is the protection of sources of raw materials needed to satisfy human needs. “Man should not create more waste than the environment can accommodate. Human consumption should recognise and emphasise sustainability. Therefore, environmental sustainability is a set of constraints on the four major activities regulating the scale of the human economic subsystem: the use of
renewable and nonrenewable resources on the source side, and pollution and waste assimilation on the sink side”.

Patten (1992) noted an increase in environmental information contained in the annual reports of oil companies following the Exxon Valdez incident. Hence oil companies must identify and know the elements that have a greater or a lesser influence on the decision of the company managers to disclose information about CSR.

Sumiani, Haslinda, & Lehman (2007) indicate that there are several reasons that motivate, or limit companies in offering responses to stakeholders, corresponding to their respective social concerns, especially those caused by economic and market pressures, environmental crises and high population growth rates.

Patten (2002) found that big companies, probably because of concerns about data transparency, are more likely to disclose more information than smaller ones. In addition, companies are subject to increased lobbying by interest groups and therefore seek to find more persuasive arguments for disseminating environmental information.

Gray & Bebbington (2001) argue that companies are under pressure from several factors, pro and con, which influence decisions regarding disclosure of environmental information. Companies with a high environmental impact, usually linked to oil, chemical, metal and paper companies are chosen for a great number of comparative studies, considering their environmental impact and increased external pressure.

Alazzani and Wan-Hussin (2013) noted that the catastrophic oil spill in 2010, caused by an explosion at a BP drilling rig in the Gulf of Mexico, inflicted significant damage to the ecosystem and had significant financial implications for BP.

Saha & Darnton (2005) discovered that companies to engage in CSR activities are due to pressure from politicians, NGOs, consumers and media rather than the companies’ driving force and care for the environment. The authors also state that companies choose to invest in sustainability due to improved reputation, lowered costs and increased business.

Frynas & Blowfield (2005) indicated that CSR makes corporations responsive to a lot more stakeholders other than just its shareholders. These stakeholders could include suppliers, customers, shareholders, and the environment, and communities amongst others. Thus, the corporations are expected to take responsibility for their actions (if any) on the aforementioned stakeholders.

Schwartz & Carroll (2008) who opined that a business is obligated only to make profits within the boundaries of minimal legal and ethical compliance. Thus, CSR is seen as a disincentive to businesses. It goes against the tenets of sound business ideals and weakens its focus on the traditional function of business with regards to profit or wealth creation.

Chiang (1988) noted that, of all marine pollutants, oil and hydrocarbons are those who have received greater international attention, both politically and scientifically. The author further observed that, of all foreign substances that enter the marine environment, oil was one of the most destructive to aquatic life, and not just one of the most harmful, but also one of the most abundant.

Darliane (2017) The oil industry, he noted is responsible for a significant share of greenhouse gas emissions, and controlling these emissions is vital to contribute to a low carbon future. In addition, relevant indicators such as materials and energy have a lower disclosure.

1.6 Materials and Methods
Research Design
Secondary data were used for this research. The secondary data were disclosures and reports in corporate annual reports and corporate websites of sampled companies. Annual reports and financial statements were largely utilised in the research.

This research also adopted a model for analysis of the relationship between the operating performance, financial leverage and size of the firms and the extent of Corporate Social Responsibility.


This work considered the social responsibilities practices of the listed oil and gas companies.

Three companies were sampled for the study: MRS Oil Nigeria Plc., Oando Plc. and Seplat Petroleum Development Company Plc. Judgmental sampling technique was adopted for selecting the three companies. The financial statements of these companies were fully available for the relevant years chosen for the study.
Data from the Annual Report of the Studied Companies

### MRS OIL NIGERIA PLC.

<table>
<thead>
<tr>
<th>PROXIES</th>
<th>RETURN ON TOTAL ASSETS</th>
<th>DEBT/EQUITY RATIO</th>
<th>SIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEARS</td>
<td>PBIT (N'000)</td>
<td>TA (N'000)</td>
<td>ROTA</td>
</tr>
<tr>
<td>2012</td>
<td>378,755</td>
<td>55,595,688</td>
<td>0.00681267</td>
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<tr>
<td>2013</td>
<td>1,407,143</td>
<td>65,694,626</td>
<td>0.02141945</td>
</tr>
<tr>
<td>2014</td>
<td>1,282,053</td>
<td>57,846,626</td>
<td>0.02216297</td>
</tr>
<tr>
<td>2015</td>
<td>1,460,843</td>
<td>66,893,741</td>
<td>0.02183826</td>
</tr>
<tr>
<td>2016</td>
<td>2,287,347</td>
<td>81,364,815</td>
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Corporate Social Responsibility Reporting

<table>
<thead>
<tr>
<th>years</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td></td>
<td>N</td>
</tr>
<tr>
<td>2012</td>
<td>173,436,302</td>
</tr>
<tr>
<td>2013</td>
<td>130,302,238</td>
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<td>2014</td>
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<td>2015</td>
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SEPLAT PETROLEUM DEVELOPMENT COMPANY PLC.

<table>
<thead>
<tr>
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<th>SIZE</th>
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</thead>
<tbody>
<tr>
<td>YEARS</td>
<td>PBIT (N'000,000)</td>
<td>TA (N'000,000)</td>
<td>ROTA</td>
</tr>
<tr>
<td>2012</td>
<td>45,956</td>
<td>139,771</td>
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<tr>
<td>2013</td>
<td>85,431</td>
<td>204,564</td>
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<td>2014</td>
<td>40,481</td>
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<td>2015</td>
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<tr>
<td>2016</td>
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OANDO

<table>
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<tr>
<td>YEARS</td>
<td>PBIT (N'000)</td>
<td>TA (N'000)</td>
<td>ROTA</td>
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<tr>
<td>2012</td>
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<td>2013</td>
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<td>2016</td>
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Data Collection and Method of Analysis

The secondary data instruments used were the companies’ annual reports. Annual reports were assumed to be reliable documents of the companies and comply with statutory standards. They also served as the most important documentation of corporate social image.

The data obtained from the annual reports and accounts of the selected Oil and Gas companies were analysed by the aid of EViews 7 statistical package for analysing panel data.
### MRS OIL
Dependent Variable: CSR  
Method: Least Squares  
Sample: 2012-2016

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<tbody>
<tr>
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<td>77072966</td>
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<td>31802626</td>
<td>-0.882810</td>
<td>0.5396</td>
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<tr>
<td>ROTA</td>
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<td>1.55E+09</td>
<td>1.193063</td>
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<tr>
<td>SIZE</td>
<td>-0.676647</td>
<td>1.227221</td>
<td>-0.551366</td>
<td>0.6792</td>
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</tbody>
</table>

R-squared: 0.674504  
Adjusted R-squared: -0.301982  
S.E. of regression: 13818817  
F-statistic: 0.690746  
Prob(F-statistic): 0.684813  
Durbin-Watson stat: 1.964461

### OANDO
Dependent Variable: CSR  
Method: Least Squares  
Sample: 2012-2016

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<tbody>
<tr>
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<td>34256071</td>
<td>4817950.</td>
<td>7.110093</td>
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<tr>
<td>ROTA</td>
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<td>48900820</td>
<td>-5.280209</td>
<td>0.1192</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.223716</td>
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<tr>
<td>DE</td>
<td>-851302.5</td>
<td>587183.2</td>
<td>-1.449807</td>
<td>0.3844</td>
</tr>
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</table>

R-squared: 0.998279  
Adjusted R-squared: 0.993114  
F-statistic: 193.3001  
Prob(F-statistic): 0.052812  
Durbin-Watson stat: 1.750194

### SEPLAT
Dependent Variable: CSR  
Method: Least Squares  
Sample: 2012-2016

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<tbody>
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<tr>
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<tr>
<td>DE</td>
<td>17150464</td>
<td>20615540</td>
<td>0.831919</td>
<td>0.5582</td>
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<tr>
<td>ROTA</td>
<td>-2.15E+08</td>
<td>1.72E+08</td>
<td>-1.249843</td>
<td>0.4296</td>
</tr>
</tbody>
</table>

R-squared: 0.640318  
Adjusted R-squared: -0.438728  
F-statistic: 0.593411  
Prob(F-statistic): 0.714973  
Durbin-Watson stat: 3.283762
Results

Oando: The t-statistics values for Return on Total Assets (ROTA) and for size of revenue (SIZE) are more than the table value of 2.132 and the probability value (0.027) of SIZE is less than 0.05, while that of ROTA (0.12) is more than 0.05.

The coefficient shows a positive correlation between Size and Social Responsibility. Thus, as earnings increase, the company’s social responsibility also increases and vice versa. Also the D/E ratio shows a negative relationship. Thus as D/E ratio decreases, the company tends to increase its participation in social responsibilities. The R-Squared and adjusted R-squared show that there is strong relationship between the variables. The value of Durbin-Watson statistics of 1.75 is an indication that the serial correlation among the variables is minimal. F-Statistics value of 193.30 is more than the table value while the Prob(F-Statistics) value of 0.052 is very close to the 0.05. This shows that our model fits the data very well. Therefore, we accept the alternate hypothesis in this case. This shows that all the independent variables together have effects on the dependent variable.

MRS: The t-statistics values for the three variables are less than the table value of 2.132 and all the F-statistics values of the three variables are more than 0.05. There is a positive correlation between ROTA and Social Responsibility (as ROTA increases, the company’s social responsibility also increases and vice versa). Durbin-Watson statistics result (1.96) shows that there is no auto/serial correlation among the variables. In this case, we accept null hypothesis because the F-Statistics value is less than the table value and the Prob(F-Statistics) is more than 0.05... Thus the three independent variables do not significantly affect our dependent variable.

Seplat: The t-statistics values for the three variables are less than the table value of 2.132 and all the probability values of the three variables are more than 0.05. There is a reasonably high correlation between Size and Social Responsibility. Thus, as earning increases, the company’s social responsibility also increases and vice versa. Though our R-Squared value shows that there is relationship between the variables, we accept null hypothesis because the F-Statistics value is less than the table value and the Prob (F-Statistics is more than 0.05. Thus, we accept the null hypothesis, though the value of R-squared shows that there is high relationship between the variables.

Negligence of social responsibility by Oil and Gas companies to their host communities have been reported to be responsible for the vandalisation of petroleum products pipelines. The study by Kate Ibegbenebor (2018), revealed that exogenous factors promoted the motive of oil prospectors to be socially responsible to their host communities. The study also revealed that the communities vandalised the oil pipelines because the Government failed to compensate them adequately for losses that arose from the effect of oil exploitation; that the use of the military to silence the aggrieved communities did not abate the agitations, and that oil pipelines vandalisation diminished the nation’s Gross Domestic Product. The study recommended that government should meet the demands for compensation of the communities and that the use of the military to stem the tide of agitations should be discouraged.

1.7 Conclusion and Recommendations

Social responsibility of Oil and Gas companies is beyond compliance with legal requirements. It also embraces continuous commitment of these companies to methods that improve the welfare of their host communities.

Now that people have quick and easy access to information through the social networks, their awareness of their rights and information on the social and environmental issues have increased their expectations from the Oil and Gas companies. So far, most of the companies have prepared ethical charters in line with their organizations' goals and missions.

The companies' commitment to social responsibility will result in the improvement of the quality of life of the people and of the community. When Oil and Gas companies become more committed to their social responsibility, there will be an improvement in employee performance, increased competitiveness and overall success in the organisations' goals and objectives.

On the issue of the relationship between exogenous factors and social responsibility of Oil and Gas companies. This study advocates the strengthening of legal requirements to ensure that host communities are adequately compensated for the negative effect of their oil prospecting activities.

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